

181485

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2006-107-WS

August 23, 2006

Application of United Utility)	
Companies, Inc. for adjustment of)	SETTLEMENT AGREEMENT
rates and charges and modifications to)	
certain terms and conditions for the)	
provision of water and sewer service.)	
_____)	

This Settlement Agreement is made by and between the Office of Regulatory Staff (“ORS”) and United Utility Companies, Inc. (“UUC” or “the Company”) (together referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its water and sewer service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission (“Commission”) pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2005);

WHEREAS, since the filing of the Application, ORS has propounded numerous data requests to UUC and the Company has provided those responses to ORS;

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and in the case of ORS, in the public interest;

WHEREAS, following those discussions the Company has determined that its interests and ORS has determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to the testimony referenced in paragraph 2 below, and (3) this Settlement Agreement with Exhibits “A”- “G” attached hereto.

2. The Parties stipulate and agree to include in the hearing record of this case the pre-filed direct testimonies of Dawn M. Hipp, Lena Sunardio and Bruce T. Haas, including all exhibits attached to said pre-filed testimonies, without objection, change, or amendment. The Parties also stipulate and agree to include in the hearing record of this case without objection, change, or amendment the portion of the pre-filed rebuttal testimony and supporting exhibits of Bruce T. Haas attached hereto as Exhibit “A”, the Supplemental Rebuttal Testimony of Bruce T. Haas, attached hereto as Exhibit “B”, the portion of the pre-filed surrebuttal testimony and

supporting exhibit of Dawn M. Hipp attached hereto as Exhibit “C”, and the testimony of Christina L. Seale containing Settlement Audit Exhibits CLS-1 through CLS-11 attached hereto as Exhibit “D”. Further, the parties agree to include in the hearing record of this case without objection, change or amendment the Settlement testimony of witnesses B. R. Skelton, PhD. and Converse A. Chellis, III, CPA, attached hereto and incorporated herein by this reference as Exhibits “E” and “F”, respectively.

3. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached to Exhibit “D” hereof fairly and reasonably set forth the Company’s operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity at an agreed upon rate of 9.40%, revenue requirement, and rate of return on rate base.

4. The Parties stipulate and agree that the rate schedule attached hereto as Exhibit “G”, including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and the opportunity to recover the revenue required to earn a fair return on its investment..

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

- ... ‘public interest’ means a balancing of the following:
- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
 - (2) economic development and job attraction and retention in South Carolina; and
 - (3) preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of

utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

6. In its Application, the Company has requested an increase in annual revenues of \$273,070. As a compromise to their respective positions, the Parties stipulate and agree to an increase in annual revenues of \$92,631, said increase to be based upon the adjustments reflected in Exhibit “D” and the return on equity stipulated to by the Parties in Paragraph 7 below.

7. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement in this case that a return on equity of 9.40% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties further stipulate and agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates reflected in Settlement Exhibits CLS-1 through CLS-11 attached to Exhibit “D” hereto are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) a return on common equity of 9.40%, which yields a fair rate of return on rate base for the Company of 7.64%, an operating margin of 7.69%, and an annual increase in revenues of approximately \$92,631, is fair, just, and reasonable when considered as a part of this stipulation and settlement

agreement in its entirety; (iii) UUC's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water sewer and sewer service, and (iv) UUC's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for service rendered by the Company on and after October 10, 2006

9. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "G", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission.

10. UUC agrees and stipulates that it will file with the Commission a performance bond for water service in the amount of \$100,000 and a performance bond for sewer service in the amount of \$350,000 by December 31, 2006.

11. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments made or positions held in other proceedings. If the

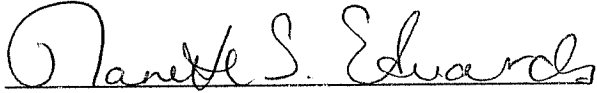
Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

13. This Settlement Agreement shall be interpreted according to South Carolina law.

14. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

Representing the South Carolina Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards". The signature is written in dark ink and is positioned above a horizontal line.

Nanette S. Edwards, Esquire

Shannon Bowyer Hudson, Esquire

South Carolina Office of Regulatory Staff

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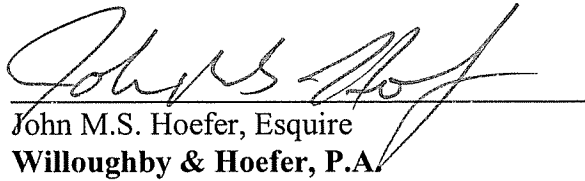
Fax: (803) 737-0895

E-mail: nsedwar@regstaff.sc.gov

shudson@regstaff.sc.gov

WE AGREE:

Representing United Utility Companies, Inc.

A handwritten signature in black ink, appearing to read "John M.S. Hoefer", is written over a horizontal line.

John M.S. Hoefer, Esquire

Willoughby & Hoefer, P.A.

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-107-W/S

IN RE:

Application of United Utility Companies,
Inc. for adjustment of rates and charges
and modifications to certain terms
and conditions for the provision of
water and sewer service.

REBUTTAL TESTIMONY
OF
BRUCE T. HAAS

**Q. ARE YOU THE SAME BRUCE T. HAAS THAT HAS PREFILED DIRECT
TESTIMONY IN THIS CASE?**

A. Yes, I am.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
PROCEEDING, MR. HAAS?**

A. The purpose of my rebuttal testimony is to respond on behalf of United Utility
Companies, Inc., or “UUC”, to some of the specific and general comments our customers
made during the night hearing in this matter.

**Q. WHAT CUSTOMER CONCERNS EXPRESSED AT THE NIGHT HEARINGS
DO YOU WISH TO RESPOND TO, MR. HAAS?**

A. Two of our customers at the Anderson County hearing stated that there were odor
problems from time to time at the WWTF in the Chambert Forest subdivision. Initially, I
would note that ORS’s review reflects that it received only two customer complaints in

1 the test year, neither of which related to odor. I would further note that odor from
2 wastewater treatment facilities is no phenomenon as, by the very nature of the business
3 and process, unpleasant aromas will from time to time be emitted from sewer utility
4 plants. It simply cannot be avoided. However, the extent and frequency of the odor
5 varies based upon a variety of factors. The proximity of a sewer facility to customer
6 premises has a large impact on the situation, with odor being more frequently noticed by
7 some customers than others. And in some instances, odor is more noticeable as
8 customers move about the area on foot. The weather and atmospherics can also play a
9 part in the pervasiveness of odor, particularly when customers are out of doors. This is
10 borne out by the system inspection reports submitted by the ORS in this case as exhibits
11 to Ms. Hipp's testimony. The ORS report of its inspection of the Chambert Forest I and
12 II plant noted that odor at the plant facility was limited to a "slight odor at 3:00 p.m." By
13 contrast, one customer noted that the odors from the WWTF increased during heavy
14 rains. And, there is also the subjective element of customer opinion on this issue which
15 has to be taken into account; what may be an unreasonable level of odor to some may not
16 be unreasonable to others. Our ability to abate odor – which is a costly undertaking – is
17 often dictated by these types of factors.

18
19 **Q. WHY IS ODOR ABATEMENT A COSTLY UNDERTAKING?**

20 **A.** To begin with, in almost all of the cases involving odor issues, the facility consists
21 in whole or in part of aeration ponds or equalization basins. Depending upon the amount
22 of rain and the atmospheric conditions, odor can develop more easily and quickly at these

1 types of facilities than any other. One obvious alternative is to eliminate the treatment
2 facility altogether by interconnection into regional facilities. However, in addition to the
3 impact on rate base that results from interconnection costs and the addition of
4 extraordinary retirement expenses when a working treatment facility is eliminated, the
5 bulk treatment costs incurred with the regional facility must be passed on to customers.
6 As Ms. Hipp's testimony reflects, we are also in the process of upgrading the Chambert
7 Forest wastewater treatment operations to improve our ability to meet discharge limits set
8 by our NPDES permit. We believe that this upgrade will further improve any odor issues
9 with this plant.
10

11 **Q. WILL THESE EFFORTS ELIMINATE ODOR?**

12 **A.** No, they will not. As I stated, our ability to abate odor is to a certain extent
13 dictated by the type of system, its proximity to residential areas, atmospheric conditions
14 and customer perceptions. Odor cannot be eliminated. Of course, it is our desire that our
15 customers not be subjected to offensive odors to the greatest extent possible and we are
16 committed to conducting our business in a manner which will give us an opportunity to
17 attain that goal. However, in some instances, it is not practicable to expect that we can do
18 that – even with the significant additional expenses of the type I just described.
19

20 **Q. DOES THE EXISTENCE OF ODOR AFFECT THE ADEQUACY OF THE**
21 **COMPANY'S SEWER SERVICE?**

1 **A.** No, it does not. The Company's sewer facilities are adequate to provide service
2 to all of our customers and there have been no instances where service has been
3 unavailable to meet the needs of our customers as a result of odor or any other reason.

4
5 **Q. DO YOU HAVE ANY OTHER COMMENTS ON THE TESTIMONY PROVIDED**
6 **BY THE CUSTOMERS?**

7 **A.** Two of our customers stated that they were billed for sewer service provided to
8 previous owners of their residences. The billing history of these customers maintained by
9 the Company did not indicate any attempt on our part to have these customers pay for
10 bills incurred by previous residents. Our customers are billed only for services rendered
11 from their move-in date. Unfortunately, these types of situations contribute to higher
12 levels of uncollectibles experienced by UUC.

13 Similarly, two of our customers stated they were "back billed" several months of
14 service. In both instances, the customers purchased residences which we supply with
15 sewer service but for which we had received no notice of their purchase. Generally, as
16 was the case in these situations, our operator or other UUC employee will become aware
17 of someone living in a previously vacant home during field observations in our service
18 area. UUC notifies the customer that he or she has been provided with our sewer service
19 and, pursuant to 26 S.C. Code Ann. Regs. R. 103-533(2), bills the customer for the
20 services rendered, up to a maximum of six months. The Company does make installment
21 arrangements with our customers in the circumstance where necessary.

1 Unlike local government entities and special purpose districts, UUC has no
2 authority to impose liens on real property where sewer services have been provided but
3 not paid for. Nor can UUC have assessments for sewer service collected with property
4 taxes as do governmental utilities. If the Company had similar statutory authority, a
5 means would exist by which purchasers of real property could be alerted at a closing by
6 their attorney that an amount is due for prior services the Company has rendered. Also, I
7 would note that Fannie Mae Form 1004, effective March 2005, a copy of which is
8 attached hereto as BTH Rebuttal Exhibit No. 1, may also alert a prospective homebuyer
9 whether a residence has sanitary sewer.

10
11 **Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING CUSTOMER**
12 **TESTIMONY?**

13 **A.** Yes. I would like to comment on statements made by Ms. Beverly Wade at the
14 hearing in Spartanburg. In October of 2003, Ms. Wade's account was noted as being
15 delinquent as the Company had never received payment for the September 2004 invoice.
16 On October 9, 2003, Ms. Wade contacted our office and informed us that she had mailed
17 a money order to the West Columbia billing center. Our Customer Service
18 Representatives advised her that we needed a copy of the money order so that we could
19 properly research the payment and resolve her complaint. On October 21, 2003, Ms.
20 Wade contacted our offices again and we understood that she would be providing the
21 necessary document; however we never received a copy of the money order and Ms.
22 Wade did not contact our offices again.

1
2 **Q. ARE YOU AWARE THAT MS. WADE FILED WITH THE COMMISSION A**
3 **COPY OF THE RECEIPT FOR THE MONEY ORDER?**

4 **A.** Yes, I am. However, I would note that the document Ms. Wade provided to the
5 Commission was a receipt of when she purchased the money order and did not indicate
6 whether the money order was deposited by UUC. Our records do not reflect the receipt
7 of a money order from Ms. Wade during this time period.
8

9 **Q. DO YOU HAVE ANY OTHER COMMENTS?**

10 **A.** The Company's witness Mr. Converse Chellis will elaborate on this point more
11 fully in his testimony, but I have one final comment concerning the testimony given by
12 Mr. Alvin Simpson during the night hearing in which he stated that the UUC systems
13 were relatively small and suggested that smaller plants were cheaper to operate.
14 Apparently to support his opinion, Mr. Simpson stated that these facilities should only
15 have to undertake lab costs every one to three months to test for toxicity. I am not sure of
16 the testing that is required of the Gaffney wastewater treatment facility, but we have to
17 conduct many more tests at our systems to remain compliant with DHEC standards. For
18 instance, at just one of our WWTF's, Briar Creek II, we conduct no less than seventy
19 tests each month from ph levels to fecal coliform levels to nitrogen and phosphorus
20 levels. Such testing is expensive, but necessary to comply with all federal and state
21 regulations.
22

1 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

2 **A.**Yes, it does.

3

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-107-W/S

IN RE:)
)
Application of United Utility Companies,)
Inc. for adjustment of rates and charges)
and modifications to certain terms)
and conditions for the provision of)
water and sewer service.)
_____)

**SUPPLEMENTAL REBUTTAL
TESTIMONY OF
BRUCE T. HAAS**

1 **Q. ARE YOU THE SAME BRUCE T. HAAS THAT HAS PREFILED DIRECT**
2 **TESTIMONY IN THIS CASE?**

3 **A.**Yes, I am.
4

5 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL**
6 **TESTIMONY IN THIS PROCEEDING, MR. HAAS?**

7 **A.**The purpose of my rebuttal testimony is to respond on behalf of United Utility
8 Companies, Inc., or "UUC", to some of the specific and general comments our customers
9 made during the night hearings held in Greenville and Union County in this matter.
10

11 **Q. WHY WERE THESE RESPONSES NOT INCLUDED IN YOUR REBUTTAL**
12 **TESTIMONY?**

13 **A.**The Company's rebuttal testimony in this matter was due to be filed on August 7.
14 The hearings in Greenville and Union were held on the evenings of August 7 and 8,

1 respectively. Therefore, the Company was unable to include issues raised during these
2 hearings in its rebuttal testimony.

3
4 **Q. WHAT CUSTOMER CONCERNS EXPRESSED AT THESE NIGHT HEARINGS**
5 **DO YOU WISH TO RESPOND TO, MR. HAAS?**

6 **A.** I would first like to respond to comments made by two of our customers at the
7 Union County hearing regarding a recent occurrence where water collected on the
8 fairway of the golf course in that subdivision. As the customers acknowledged, the
9 entire area served by that plant is predominantly a low lying area which is prone to
10 flooding during periods of heavy rain. The original developer of the property constructed
11 the sewer plant in this valley and if the site experiences abnormally high rainfall, the golf
12 course can flood. This wastewater, however, is clearly not the result of sewer back-ups
13 or overflow as the plant in question does not receive enough wastewater to produce this
14 amount of water.

15 Furthermore, the developer of the property installed a sewer main next to a main
16 creek bed. During flash floods, this creek may overflow and cover the sewer main. As a
17 result, wastewater may mix with the flood water and be released into the environment.
18 However, when such situations occur, the Company promptly notifies DHEC as
19 necessary, and takes the appropriate actions to correct any environmental impacts from
20 the wastewater release. I would note that DHEC, which is the primary enforcement
21 agency over water and wastewater environmental concerns, has not directed the

1 Company to move the sewer main or build additional structures, such as a dike, to protect
2 the plant from these occasional occurrences.

3
4 **Q. WHAT OTHER COMMENTS DO YOU HAVE ON THE TESTIMONY**
5 **OFFERED BY THE CUSTOMERS AT THESE HEARINGS?**

6 Two of our customers stated that one of our treatment plants in Union County
7 makes “a lot of noise.” While sometimes a blower or pump may malfunction and not
8 operate as quietly as normal, UUC does not have any record of noise complaints from our
9 customers. Nevertheless, we are investigating these claims and will take appropriate
10 actions to remedy any malfunction.

11 Additionally, another customer at the Union hearing and two customers at the
12 Greenville hearing testified that there were problems related to roots which resulted in
13 back-ups to the wastewater collection system. As the Commission is aware, the intrusion
14 of roots into a sewer system is a common problem and UUC takes steps to avoid these
15 situations where possible. The Company has scheduled maintenance of these systems in
16 which it cleans between 10%-20% of sewer collection mains each year to minimize the
17 potential for back-ups. Additionally, when back-ups do occur, UUC makes every effort
18 to resolve the situation promptly and utilizes its 24-hour-a-day, seven-day-a-week on-call
19 emergency service. Despite these measures, certain areas do have recurring root
20 problems. Often, these areas are due to trees or other plants that are located near a sewer
21 main. While the Company does have the authority to control and maintain the area
22 immediately surrounding the sewer main and can jet the lines when necessary, UUC does

1 not have the authority to cut down or remove trees and plants outside the boundaries of
2 its easement to prevent future intrusions.

3 Finally, certain customers at the Greenville hearing testified to what they believed
4 were incorrect meter readings and suggested that UUC may estimate certain bills. UUC
5 does not charge for water or sewer services based on estimate readings. Rather, a UUC
6 employee reads the meter every billing cycle. In the event a customer believes a meter
7 has been read incorrectly, we will send an employee to confirm the meter reading and test
8 the meter as necessary.

9
10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 **A.** Yes, it does.
12

**THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY AND
EXHIBITS
OF**

DAWN M. HIPPIE



DOCKET NO. 2006-107-WS

**Application of United Utility Companies, Inc.
for Adjustment of Rates and Charges and
Modification to Certain Terms and
Conditions for the Provision of Water and
Sewer Service**

1 Q. UPON REVIEW, DOES ORS PROPOSE TO ADJUST UUCI'S
2 UNCOLLECTIBLE PERCENTAGE?

3 A. Yes. ORS proposes to increase UUCI's uncollectible percentage for combined
4 operations from 1.5% to 3.51%. The impact of this adjustment on revenue will
5 be addressed by Ms. Tina Seale in her Surrebuttal Testimony.

6 Q. WHAT IS THE BASIS FOR YOUR ORIGINAL ADJUSTMENT OF
7 UNCOLLECTIBLES USING 1.5 PERCENT?

8 A. High levels of uncollectible revenue impact paying customers by driving up
9 termination, notification and collection expenses. ORS uses the 1.5%
10 uncollectible rate as a guideline to ensure that water and/or wastewater utilities
11 are implementing proper billing and collections practices and properly recording
12 uncollectible revenue. If the books and records of a water and/or wastewater
13 utility reflect an uncollectible percentage exceeding 1.5% for the test year, ORS
14 reviews the utility's billing, collection and termination of service procedures to
15 ensure compliance with Commission regulations and implementation of good
16 business practices. This technique is also used by the Florida Public Service
17 Commission and the North Carolina Utilities Commission Public Staff.

18 Q. WHY DOES ORS RECOMMEND AN INCREASE IN UUCI'S
19 UNCOLLECTIBLE PERCENTAGE?

20 A. ORS reviewed the billing records of UUCI for test year ending September 30,
21 2005. After determining the uncollectible percentage for combined operations
22 exceeded 1.5%, ORS examined UUCI's billing, collection and termination of
23 service procedures. All procedures were found to be acceptable and in

1 compliance with Commission regulations. While UUCI's uncollectible
2 percentage for combined operations exceeds 1.5%, ORS does not believe the high
3 uncollectible rate is attributable to deficiencies in UUCI's billing and collection
4 practices. Therefore, ORS proposes to adjust combined operations uncollectible
5 revenues using a three-year average based on the Trial Balances provided by
6 UUCI in response to the ORS First Continuing Data Request 1.51.

7 **Q. WHY DOES ORS PROPOSE TO ADJUST UUCI'S UNCOLLECTIBLES**
8 **USING A THREE-YEAR AVERAGE?**

9 A. NARUC's Rate Case and Audit Manual recommends review of uncollectible
10 revenue over several years. According to UUCI's Trial Balance for 2003, 2004
11 and 2005, uncollectible revenue on combined operations has increase
12 significantly. Due to the yearly variance in uncollectible revenue, using a three-
13 year average for combined operations is reasonable. Attached is Exhibit DMH-10
14 which details UUCI water, sewer and total uncollectible revenues as recorded on
15 the Trial Balances for years ending September 30th of both 2003 and 2004. In
16 addition, ORS used normalized test year water, sewer and total uncollectible
17 revenues for 2005 to provide a three-year average. ORS calculated the three-year
18 average uncollectible percentage as 3.51%.

19 **Q. DOES THAT CONCLUDE YOUR SURREBUTAL TESTIMONY?**

20 A. Yes it does.

Adjustment to Uncollectibles

Based on 3-Year Average of Combined Operations

Uncollectible Analysis: Three-Year Trial Balance History provided by UUCI*

Trial Balance Category	9/30/2003	9/30/2004	9/30/2005
Water Revenue	\$47,906.88	\$49,515.84	\$43,424.00
Sewer Revenue	\$765,908.15	\$764,208.59	\$728,520.00
Total Uncollectibles for Combined Operations	\$13,257.12	\$28,065.10	\$42,006.00
Total Uncollectible % for Combined Operations	1.63%	3.45%	5.44%

Normalized to remove Keowee and Gem Lakes
Normalized to remove Keowee and Gem Lakes

Combined Operations Uncollectible Percentage based on a
Three Year Average

3.51%

* Note: Separate uncollectible percentages for water and sewer operations cannot be discerned from Detailed Trial Balance provided by UUCI in response to ORS First Continuing Data Request Question 1.51. ORS recommends using a 3-yr combined operations average.

**THE OFFICE OF REGULATORY STAFF
SETTLEMENT TESTIMONY AND
EXHIBITS
OF
CHRISTINA L. SEALE**



DOCKET NO. 2006-107 -W/S

**APPLICATION OF UNITED UTILITY COMPANIES,
INCORPORATED FOR ADJUSTMENT OF RATES
AND CHARGES AND MODIFICATION TO
CERTAIN TERMS AND CONDITIONS FOR THE
PROVISION OF WATER AND SEWER SERVICE**

SETTLEMENT TESTIMONY OF CHRISTINA L. SEALE**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-107-W/S****IN RE: UNITED UTILITY COMPANIES, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Christina L. Seale. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a Bachelor of Science in Accounting with a minor in Computer Systems and Applications from Columbia College in 2000. From 2001 to 2004, I was employed by the South Carolina Office of the State Auditor. In that capacity, I performed agreed-upon procedures of various state agencies in South Carolina. I also performed audits of various state agencies for the annual Single Audit of the State's Schedule of Expenditures of Federal Funds. In January 2005, I began my employment with ORS.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY INVOLVING UNITED UTILITY COMPANIES, INC?

A. The purpose of my testimony is to set forth the adjustments agreed upon in the

**THE OFFICE OF REGULATORY STAFF
1441 Main Street, Suite 300, Columbia, SC 29201
Post Office Box 11263, Columbia, SC 29211**

1 settlement agreement between ORS and United Utility Companies, Inc. ("UUCI") in
2 this docket.

3 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**
4 **SETTLEMENT TESTIMONY.**

5 A. I have attached ORS's Settlement Audit Exhibits CLS-1 through CLS-11. The
6 Settlement Audit Exhibits were either prepared by me or prepared under my direction
7 and supervision in compliance with recognized accounting and regulatory procedures
8 for water and wastewater utility rate cases.

9 **Q. PLEASE EXPLAIN THE CONTENTS OF THE SETTLEMENT AUDIT**
10 **EXHIBITS.**

11 A. The Settlement Audit Exhibits reflect a return on equity of 9.40% and a return on rate
12 base of 7.64%. As part of the settlement, UUCI agreed to accept ORS's adjustments
13 as reflected in the attached Settlement Audit Exhibits CLS-1 through CLS-11.

14 **Q: WHAT IS THE DOLLAR AMOUNT OF THE INCREASE PROPOSED BY**
15 **THE SETTLEMENT AGREEMENT?**

16 A: UUCI requested an increase in annual net operating revenues of \$273,070 in its
17 application. As a compromise, ORS and UUCI agree to an increase in annual net
18 operating revenues of \$92,631. This amount is approximately 66% less than UUCI's
19 original requested increase.

20 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

21 A. Yes, it does.

United Utility Companies, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Combined Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Gem Lakes and Keowee Townhomes Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenues - Water	43,011	413 (A)	43,424	0 (Q1)	43,424	5,761 (R)	49,185
Service Revenues - Sewer	728,478	6,410 (A)	734,888	(6,368) (Q1)	728,520	90,239 (R)	818,759
Service Revenues - Adjustment GEM Lakes	146,265	0	146,265	(146,265) (Q2)	0	0	0
Miscellaneous Revenues	29,482	0	29,482	(1,663) (Q3)	27,819	0	27,819
Uncollectible Accounts	(44,295)	11,842 (B)	(32,453)	5,357 (Q4)	(27,096)	(3,370) (S)	(30,466)
Total Operating Revenues	902,941	18,665	921,606	(148,939)	772,667	92,631	865,298
Operating Expenses:							
Maintenance Expenses	504,072	143 (C)	504,215	(64,499) (Q5)	439,716	0	439,716
General Expenses	194,660	7,898 (D)	202,558	(59,065) (Q6)	143,493	0	143,493
Depreciation Expense	103,145	(4,187) (E)	98,958	(10,060) (Q7)	88,898	0	88,898
Taxes Other Than Income	122,566	(41,411) (F)	81,155	(13,595) (Q8)	67,560	1,081 (T)	68,641
Income Taxes - State	1,281	(1,349) (G)	(68)	618 (Q9)	550	4,577 (U)	5,127
Income Taxes - Federal	10,606	(11,058) (H)	(452)	4,107 (Q10)	3,655	30,441 (V)	34,096
Amortization of CIAC	(44,313)	172 (I)	(44,141)	512 (Q11)	(43,629)	0	(43,629)
Total Operating Expenses	892,017	(49,792)	842,225	(141,982)	700,243	36,099	736,342
Total Operating Income	10,924	68,457	79,381	(6,957)	72,424	56,532	128,956
Interest During Construction	1,064	(1,064) (J)	0	0	0	0	0
Customer Growth	0	2,014 (K)	2,014	(179) (Q12)	1,835	1,366 (W)	3,201
Net Income for Return	11,988	69,407	81,395	(7,136)	74,259	57,898	132,157
Original Cost Rate Base:							
Gross Plant in Service	5,314,180	251,702 (L)	5,565,882	(670,662) (Q13)	4,895,220	0	4,895,220
Accumulated Depreciation	(582,416)	46,426 (M)	(535,990)	144,025 (Q14)	(391,965)	0	(391,965)
Net Plant in Service	4,731,764	298,128	5,029,892	(526,637)	4,503,255	0	4,503,255
Cash Working Capital	87,341	1,006 (N)	88,347	(15,445) (Q15)	72,902	0	72,902
Contributions in Aid of Construction	(2,599,699)	(172) (O)	(2,599,871)	34,120 (Q16)	(2,565,751)	0	(2,565,751)
Accumulated Deferred Income Taxes	(381,953)	0	(381,953)	123,876 (Q17)	(258,077)	0	(258,077)
Customer Deposits	(34,743)	0	(34,743)	2,190 (Q18)	(32,553)	0	(32,553)
Water Service Corporation - Rate Base	12,552	0	12,552	(2,465) (Q19)	10,087	0	10,087
Total Rate Base	1,815,262	298,962	2,114,224	(384,361)	1,729,863	0	1,729,863
Return on Rate Base	0.66%		3.85%		4.29%		7.64%
Interest Expense	137,880	(57,661) (P)	80,219	(14,584) (Q20)	65,635	0	65,635

United Utility Companies, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Water Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Gem Lakes and Keowee Townhomes Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenues - Water	43,011	413 (A)	43,424	0	43,424	5,761 (R)	49,185
Miscellaneous Revenues	1,114	0	1,114	0	1,114	0	1,114
Uncollectible Accounts	(2,033)	509 (B)	(1,524)	0	(1,524)	(202) (S)	(1,726)
Total Operating Revenues	42,092	922	43,014	0	43,014	5,559	48,573
Operating Expenses:							
Maintenance Expenses	22,568	9 (C)	22,577	0	22,577	0	22,577
General Expenses	12,283	1,512 (D)	13,795	0	13,795	0	13,795
Depreciation Expense	8,165	(806) (E)	7,359	0	7,359	0	7,359
Taxes Other Than Income	7,573	(2,613) (F)	4,960	0	4,960	65 (T)	5,025
Income Taxes - State	59	(451) (G)	(392)	0	(392)	275 (U)	(117)
Income Taxes - Federal	487	(3,093) (H)	(2,606)	0	(2,606)	1,827 (V)	(779)
Amortization of CIAC	(3,682)	(5) (I)	(3,687)	0	(3,687)	0	(3,687)
Total Operating Expenses	47,453	(5,447)	42,006	0	42,006	2,167	44,173
Total Operating Income	(5,361)	6,369	1,008	0	1,008	3,392	4,400
Interest During Construction	84	(84) (J)	0	0	0	0	0
Customer Growth	0	0	0	0	0	0	0
Net Income for Return	(5,277)	6,285	1,008	0	1,008	3,392	4,400
Original Cost Rate Base:							
Gross Plant in Service	426,655	3,990 (L)	430,645	0	430,645	0	430,645
Accumulated Depreciation	(51,379)	2,440 (M)	(48,939)	0	(48,939)	0	(48,939)
Net Plant in Service	375,276	6,430	381,706	0	381,706	0	381,706
Cash Working Capital	4,356	191 (N)	4,547	0	4,547	0	4,547
Contributions in Aid of Construction	(206,977)	5 (O)	(206,972)	0	(206,972)	0	(206,972)
Accumulated Deferred Income Taxes	(23,787)	0	(23,787)	0	(23,787)	0	(23,787)
Customer Deposits	(2,192)	0	(2,192)	0	(2,192)	0	(2,192)
Water Service Corporation - Rate Base	792	0	792	0	792	0	792
Total Rate Base	147,468	6,626	154,094	0	154,094	0	154,094
Return on Rate Base	-3.58%		0.65%		0.65%		2.86%
Interest Expense	10,917	(5,070) (P)	5,847	0	5,847	0	5,847

United Utility Companies, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Sewer Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Gem Lakes and Keowee Townhomes Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenues - Sewer	728,478	6,410 (A)	734,888	(6,368) (Q1)	728,520	90,239 (R)	818,759
Service Revenues - Adjustment GEM Lakes	146,265	0	146,265	(146,265) (Q2)	0	0	0
Miscellaneous Revenues	28,368	0	28,368	(1,663) (Q3)	26,705	0	26,705
Uncollectible Accounts	(42,262)	11,333 (B)	(30,929)	5,357 (Q4)	(25,572)	(3,167) (S)	(28,739)
Total Operating Revenues	860,849	17,743	878,592	(148,939)	729,653	87,072	816,725
Operating Expenses:							
Maintenance Expenses	481,504	134 (C)	481,638	(64,499) (Q5)	417,139	0	417,139
General Expenses	182,377	6,386 (D)	188,763	(59,065) (Q6)	129,698	0	129,698
Depreciation Expense	94,980	(3,381) (E)	91,599	(10,060) (Q7)	81,539	0	81,539
Taxes Other Than Income	114,993	(38,798) (F)	76,195	(13,595) (Q8)	62,600	1,016 (T)	63,616
Income Taxes - State	1,222	(898) (G)	324	618 (Q9)	942	4,302 (U)	5,244
Income Taxes - Federal	10,119	(7,965) (H)	2,154	4,107 (Q10)	6,261	28,614 (V)	34,875
Amortization of CIAC	(40,631)	177 (I)	(40,454)	512 (Q11)	(39,942)	0	(39,942)
Total Operating Expenses	844,564	(44,345)	800,219	(141,982)	658,237	33,932	692,169
Total Operating Income	16,285	62,088	78,373	(6,957)	71,416	53,140	124,556
Interest During Construction	980	(980) (J)	0	0	0	0	0
Customer Growth	0	2,014 (K)	2,014	(179) (Q12)	1,835	1,366 (W)	3,201
Net Income for Return	17,265	63,122	80,387	(7,136)	73,251	54,506	127,757
Original Cost Rate Base:							
Gross Plant in Service	4,887,525	247,712 (L)	5,135,237	(670,662) (Q13)	4,464,575	0	4,464,575
Accumulated Depreciation	(531,037)	43,986 (M)	(487,051)	144,025 (Q14)	(343,026)	0	(343,026)
Net Plant in Service	4,356,488	291,698	4,648,186	(526,637)	4,121,549	0	4,121,549
Cash Working Capital	82,985	815 (N)	83,800	(15,445) (Q15)	68,355	0	68,355
Contributions in Aid of Construction	(2,392,722)	(177) (O)	(2,392,899)	34,120 (Q16)	(2,358,779)	0	(2,358,779)
Accumulated Deferred Income Taxes	(358,166)	0	(358,166)	123,876 (Q17)	(234,290)	0	(234,290)
Customer Deposits	(32,551)	0	(32,551)	2,190 (Q18)	(30,361)	0	(30,361)
Water Service Corporation - Rate Base	11,760	0	11,760	(2,465) (Q19)	9,295	0	9,295
Total Rate Base	1,667,794	292,336	1,960,130	(384,361)	1,575,769	0	1,575,769
Return on Rate Base	1.04%		4.10%		4.65%		8.11%
Interest Expense	126,963	(52,591) (P)	74,372	(14,584) (Q20)	59,788	0	59,788

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>			
(A) Service Revenues			
1 ORS and UUCI propose to adjust service revenues to reflect test year customer billings.			
Per ORS	6,823	413	6,410
Per UUCI	9,717	412	9,305
2 UUCI proposes to remove sewer revenues relating to Gem Lakes which are not part of the test year period. ORS adjusts for revenues relating to Gem Lakes in ORS Adjustment 26			
Per ORS	0	0	0
Per UUCI	(59,023)	0	(59,023)
(B) Uncollectible Accounts			
3 ORS proposes to adjust uncollectible accounts after accounting and pro forma adjustments to service revenues. ORS applied an uncollectible rate of 3.51% to total service revenues of \$924,577, less the uncollectible accounts per book amount of (\$44,295) for an adjustment of \$11,842.			
Per ORS	11,842	509	11,333
Per UUCI	0	0	0
(C) Maintenance Expenses			
4 ORS and UUCI propose to adjust operators' salaries for the test year. ORS proposes to annualize operators' salaries using salaries as of May 2006 and salary allocation factors as of September 30, 2005. ORS did not include a 4% cost of living increase, since supporting documentation was not received in sufficient time to allow for its audit. UUCI included a 4% cost of living increase.			
Per ORS	2,265	143	2,122
Per UUCI	16,387	1,037	15,350

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
5 ORS and UUCI propose to adjust operating expense charged to plant to reflect the proposed adjustment to operators' salaries and related taxes and benefits. ORS computed a factor of 30.12% using actual test year data. UUCI used a capitalization factor of 30.20% which was based on annualized salaries.			
Per ORS	(2,122)	(134)	(1,988)
Per UUCI	(7,210)	(455)	(6,755)
Total Per ORS	143	9	134
(D) General Expenses			
6 ORS and UUCI propose to adjust office salaries for the test year. ORS proposes to annualize office salaries using salaries as of May 2006 and salary allocation factors as of September 30, 2005. ORS did not include a 4% cost of living increase, since supporting documentation was not received in sufficient time to allow for its audit. UUCI included a 4% cost of living increase.			
Per ORS	1,568	99	1,469
Per UUCI	3,311	210	3,101
7 ORS and UUCI propose to include current rate case expenses amortized over a three-year period. ORS included actual rate case expenses of \$117,732 amortized over a three-year period for a total of \$39,244 less per book amount of \$35,000 for a total of \$4,244. This amount plus the expense to maintain the additional letters of credit of \$5,250 amounts to a total adjustment of \$9,494. The current rate case expenses include UUCI's portion of the Utilities Inc. Management Audit costs.			
Per ORS	9,494	1,423	8,071
Per UUCI	22,155	1,398	20,757
8 ORS and UUCI propose to adjust pension and other benefits associated with the adjusted test year salaries			
Per ORS	(164)	(10)	(154)
Per UUCI	1,050	67	983
9 ORS proposes to remove DHEC fines paid for Briarcreek Subdivision (Consent Order 04-180-W) that are not allowable for rate making purposes			
Per ORS	(3,000)	0	(3,000)
Per UUCI	0	0	0
Total Per ORS	7,898	1,512	6,386

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(E) Depreciation Expense			
10 ORS proposes to annualize depreciation expense as of June 30, 2006 for known and measurable plant in service. UUCI proposes to annualize depreciation expense using estimated plant additions. See Audit Exhibit CLS-5.			
Per ORS	(4,187)	(806)	(3,381)
Per UUCI	4,897	(151)	5,048
(F) Taxes Other Than Income			
11 ORS and UUCI propose to adjust for payroll taxes associated with the adjusted test year salaries.			
Per ORS	(1,193)	(75)	(1,118)
Per UUCI	6	1	5
12 ORS proposes to adjust utility/commission tax and gross receipts tax after the accounting and pro forma adjustments using a factor of .0112524 (.0082524 for PSC/ORS and .003 for SCDOR).			
Per ORS	77	5	72
Per UUCI	0	0	0
13 ORS and UUCI propose to remove a tax accrual for property taxes to reflect actual test year expense.			
Per ORS	(40,295)	(2,543)	(37,752)
Per UUCI	(40,295)	(2,543)	(37,752)
Total Per ORS	(41,411)	(2,613)	(38,798)
(G) Income Taxes - State			
14 ORS and UUCI propose to adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit CLS-6.			
Per ORS	(1,349)	(451)	(898)
Per UUCI	(6,678)	(553)	(6,125)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(H) Income Taxes - Federal			
15 ORS and UUCI propose to adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit CLS-6.			
Per ORS	(11,058)	(3,093)	(7,965)
Per UUCI	(46,495)	(3,770)	(42,725)
(I) Amortization of Contributions in Aid of Construction (CIAC)			
16 ORS and UUCI propose to annualize amortization of CIAC expense as of September 30, 2005. The purpose of this adjustment is to properly calculate amortization expense associated with CIAC. See Audit Exhibit CLS-5.			
Per ORS	172	(5)	177
Per UUCI	1,230	54	1,176
(J) Interest During Construction (IDC)			
17 ORS and UUCI propose to eliminate IDC for rate making purposes. ORS and UUCI did not include construction work in progress in rate base. Therefore, IDC is eliminated as an addition to net income.			
Per ORS	(1,064)	(84)	(980)
Per UUCI	(1,064)	(84)	(980)
(K) Customer Growth			
18 ORS proposes to adjust for customer growth after the accounting and pro forma adjustments. ORS used customers as of June 30, 2006, since plant additions through that date have been included. See Audit Exhibit CLS-7.			
Per ORS	2,014	0	2,014
Per UUCI	0	0	0
(L) Gross Plant in Service			
19 ORS and UUCI propose to adjust for pro forma projects, general ledger additions and deletions and capitalized time. ORS adjusted plant in service for actual plant additions documented as of June 30, 2006.			
Per ORS	249,580	3,856	245,724
Per UUCI	271,020	6,774	264,246

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
20 ORS proposes to capitalize 30.12% of the operators' salaries, taxes and benefits as a result of the salary adjustment.			
Per ORS	2,122	134	1,988
Per UUCI	0	0	0
Total Per ORS	<u>251,702</u>	<u>3,990</u>	<u>247,712</u>
(M) Accumulated Depreciation			
21 ORS proposes to reduce accumulated depreciation for the annualized depreciation expense adjustment of \$4,187 and general ledger retirements from October 1, 2005 to June 30, 2006 of \$42,239. UUCI proposes to reduce accumulated depreciation using estimated plant additions and retirements.			
Per ORS	<u>46,426</u>	<u>2,440</u>	<u>43,986</u>
Per UUCI	<u>15,754</u>	<u>(160)</u>	<u>15,914</u>
(N) Cash Working Capital			
22 ORS and UUCI propose to adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-8.			
Per ORS	<u>1,006</u>	<u>191</u>	<u>815</u>
Per UUCI	<u>4,462</u>	<u>282</u>	<u>4,180</u>
(O) Contributions in Aid of Construction (CIAC)			
23 ORS proposes to adjust CIAC to reflect the amortization of CIAC expense as of September 30, 2005, as a result of ORS Adjustment 16.			
Per ORS	<u>(172)</u>	<u>5</u>	<u>(177)</u>
Per UUCI	<u>0</u>	<u>0</u>	<u>0</u>
(P) Interest Expense			
24 ORS and UUCI propose to adjust interest on debt using 59.10% and 40.90% as the debt to equity ratio and 6.42% cost of debt. ORS and UUCI propose to compute allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit CLS-9.			
Per ORS	<u>(57,661)</u>	<u>(5,070)</u>	<u>(52,591)</u>
Per UUCI	<u>(57,968)</u>	<u>(5,061)</u>	<u>(52,907)</u>

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Gem Lakes (Docket No. 2006-130-S) and Keowee Townhomes (Docket No. 2006-122-S) Adjustments</u>			
(Q1) Service Revenues			
25 ORS proposes to remove service revenues based on test year customer billings to reflect UUCI's relinquishment of its Keowee Townhomes service territory.			
Per ORS	(6,368)	0	(6,368)
Per UUCI	0	0	0
(Q2) Service Revenues - Adjustment Gem Lakes			
26 ORS proposes to remove per book service revenues of Gem Lakes from total revenues to reflect the transfer of Gem Lakes. UUCI proposes to reduce revenues of Gem Lakes of (\$59,023) in Adjustment 2.			
Per ORS	(146,265)	0	(146,265)
Per UUCI	0	0	0
(Q3) Miscellaneous Revenues			
27 ORS proposes to remove per book miscellaneous revenues of (\$1,648) of Gem Lakes and (\$15) of Keowee Townhomes from total revenues to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	(1,663)	0	(1,663)
Per UUCI	0	0	0
(Q4) Uncollectible Accounts			
28 ORS proposes to adjust uncollectible accounts to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. ORS used the adjustments to service revenues of (\$6,368) and (\$146,265) multiplied by an uncollectible rate of 3.51% to calculate uncollectible revenues.			
Per ORS	5,357	0	5,357
Per UUCI	0	0	0
(Q5) Maintenance Expenses			
29 ORS proposes to remove per book maintenance expenses of Gem Lakes from total expenses to reflect the transfer of Gem Lakes.			
Per ORS	(64,496)	0	(64,496)
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
30 ORS proposes to adjust its accounting and pro forma adjustment of operators' salaries to reflect the transfer of Gem Lakes by applying a ratio of .0262 (Gem Lakes operators' salaries per book to total UUCI operators' salaries per book) to Adjustment 4 of \$2,265.			
Per ORS	(59)	0	(59)
Per UUCI	0	0	0
31 ORS proposes to adjust its accounting and pro forma adjustment of operating expense charged to plant to reflect the transfer of Gem Lakes by applying a ratio of .0262 (Gem Lakes operators' salaries per book to total UUCI operators' salaries per book) to Adjustment 5 of (\$2,122).			
Per ORS	56	0	56
Per UUCI	0	0	0
Total Per ORS	(64,499)	0	(64,499)
(Q6) General Expenses			
32 ORS proposes to remove per book general expenses of Gem Lakes from total expenses to reflect the transfer of Gem Lakes			
Per ORS	(46,013)	0	(46,013)
Per UUCI	0	0	0
33 ORS proposes to adjust its accounting and pro forma adjustment of office salaries to reflect the transfer of Gem Lakes by applying a ratio of .1477 (Gem Lakes office salaries per book to total UUCI office salaries per book) to Adjustment 6 of \$1,568.			
Per ORS	(232)	0	(232)
Per UUCI	0	0	0
34 ORS proposes to adjust its accounting and pro forma adjustment of pension and other benefits to reflect the transfer of Gem Lakes by applying a ratio of .0547 (Gem Lakes pension & other benefits per book to total UUCI pension & other benefits per book) to Adjustment 8 of (\$164)			
Per ORS	9	0	9
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
35 ORS proposes to remove allocation amounts from the parent company for UUCI's transfer of Gem Lakes and its relinquishment of Keowee Townhomes service territory.			
Per ORS	(12,829)	0	(12,829)
Per UUCI	0	0	0
Total Per ORS	(59,065)	0	(59,065)
(Q7) Depreciation Expense			
36 ORS proposes to reduce depreciation expense to reflect UUCI's transfer of Gem Lakes and its relinquishment of Keowee Townhomes service territory. ORS used the reduction in gross plant in service amount of (\$670,606) plus salaries charged to plant of (\$56) totaling (\$670,662) multiplied by the depreciation rate of 1.5%.			
Per ORS	(10,060)	0	(10,060)
Per UUCI	0	0	0
(Q8) Taxes Other than Income (TOTI)			
37 ORS proposes to remove per book TOTI of Gem Lakes from total expenses to reflect the transfer of Gem Lakes.			
Per ORS	(13,634)	0	(13,634)
Per UUCI	0	0	0
38 ORS proposes to adjust its accounting and pro forma adjustment of payroll taxes to reflect the transfer of Gem Lakes by applying a ratio of .0428 (Gem Lakes payroll taxes per book to total UUCI payroll taxes per book) to Adjustment 11 of (\$1,193).			
Per ORS	51	0	51
Per UUCI	0	0	0
39 ORS proposes to adjust its accounting and pro forma adjustment of utility/commission tax and gross receipts tax to reflect the transfer of Gem Lakes by applying a ratio of 1617 (Gem Lakes gross revenues per book to total UUCI gross revenues per book) to Adjustment 12 of \$77			
Per ORS	(12)	0	(12)
Per UUCI	0	0	0
Total Per ORS	(13,595)	0	(13,595)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(Q9) Income Taxes - State			
40 ORS proposes to adjust state income taxes to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. See Audit Exhibit CLS-6			
Per ORS	618	0	618
Per UUCI	0	0	0
(Q10) Income Taxes - Federal			
41 ORS proposes to adjust federal income taxes to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. See Audit Exhibit CLS-6.			
Per ORS	4,107	0	4,107
Per UUCI	0	0	0
(Q11) Amortization of CIAC			
42 ORS proposes to reduce amortization of CIAC to reflect the transfer of Gem Lakes. ORS used the reduction in CIAC of \$34,120 in Adjustment 48 multiplied by the amortization rate of 1.5%			
Per ORS	512	0	512
Per UUCI	0	0	0
(Q12) Customer Growth			
43 ORS proposes to adjust for customer growth after the Gem Lakes and Keowee Townhomes adjustments. ORS used customers as of June 30, 2006, since plant additions through that date have been included. See Audit Exhibit CLS-7.			
Per ORS	(179)	0	(179)
Per UUCI	0	0	0
(Q13) Gross Plant in Service			
44 ORS proposes to remove per book gross plant in service of (\$662,010) of Gem Lakes and (\$8,596) of Keowee Townhomes from total gross plant in service to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	(670,606)	0	(670,606)
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
45 ORS proposes to adjust its accounting and pro forma adjustment of operating expense charged to plant to reflect the transfer of Gem Lakes by applying a ratio of .0262 (Gem Lakes operators' salaries per book to total UUCI operators' salaries per book) to Adjustment 20 of \$2,122.			
Per ORS	(56)	0	(56)
Per UUCI	0	0	0
Total Per ORS	(670,662)	0	(670,662)
(Q14) Accumulated Depreciation			
46 ORS proposes to remove per book accumulated depreciation of \$143,965 of Gem Lakes and \$60 of Keowee Townhomes from total accumulated depreciation to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	144,025	0	144,025
Per UUCI	0	0	0
(Q15) Cash Working Capital			
47 ORS proposes to adjust cash working capital to reflect the transfer of Gem Lakes. See Audit Exhibit CLS-8.			
Per ORS	(15,445)	0	(15,445)
Per UUCI	0	0	0
(Q16) Contributions in Aid of Construction (CIAC)			
48 ORS proposes to remove per book CIAC of Gem Lakes from total CIAC to reflect the transfer of Gem Lakes.			
Per ORS	34,120	0	34,120
Per UUCI	0	0	0
(Q17) Accumulated Deferred Income Taxes (ADIT)			
49 ORS proposes to remove per book ADIT of Gem Lakes from total ADIT to reflect the transfer of Gem Lakes			
Per ORS	123,876	0	123,876
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
(Q18) Customer Deposits			
50 ORS proposes to remove per book customer deposits of Gem Lakes from total customer deposits to reflect the transfer of Gem Lakes.			
Per ORS	2,190	0	2,190
Per UUCI	0	0	0
(Q19) Water Service Corporation - Rate Base			
51 ORS proposes to adjust Water Service Corporation - Rate Base amount to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory			
Per ORS	(2,465)	0	(2,465)
Per UUCI	0	0	0
(Q20) Interest Expense			
52 ORS proposes to adjust interest on debt using 59.10% and 40.90% as the debt to equity ratio and 6.42% cost of debt. ORS proposes to compute allowable interest expense after UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. See Audit Exhibit CLS-9.			
Per ORS	(14,584)	0	(14,584)
Per UUCI	0	0	0
<u>Proposed Increase</u>			
(R) Service Revenues			
53 ORS and UUCI propose an increase in service revenues.			
Per ORS	96,000	5,761	90,239
Per UUCI	294,707	23,079	271,628
(S) Uncollectible Accounts			
54 ORS and UUCI propose to adjust uncollectible accounts for the proposed increase. ORS proposes to use an uncollectible rate of 3.51% to calculate uncollectible revenues			
Per ORS	(3,370)	(202)	(3,167)
Per UUCI	(21,638)	(1,081)	(20,557)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(T) Taxes Other Than Income			
55 ORS and UUCI propose to adjust utility/commission tax and gross receipts tax for the proposed increase using a factor of .0112524 (.0082524 for PSC/ORS and .003 for SCDOR).			
Per ORS	1,081	65	1,016
Per UUCI	3,310	259	3,051
(U) Income Taxes - State			
56 ORS and UUCI propose to adjust state income taxes for the proposed increase. See Audit Exhibit CLS-6.			
Per ORS	4,577	275	4,302
Per UUCI	13,488	1,087	12,401
(V) Income Taxes - Federal			
57 ORS and UUCI propose to adjust federal income taxes for the proposed increase. See Audit Exhibit CLS-6.			
Per ORS	30,441	1,827	28,614
Per UUCI	89,695	7,228	82,467
(W) Customer Growth			
58 ORS proposes to adjust customer growth for the proposed increase. ORS used customers as of June 30, 2006, since plant additions through that date have been included. See Audit Exhibit CLS-7.			
Per ORS	1,366	0	1,366
Per UUCI	0	0	0

United Utility Companies, Inc.
Depreciation and Amortization Adjustment
For the Test Year Ended September 30, 2005

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
	\$	\$	\$
<u>Depreciation Adjustment</u>			
Gross Plant @ 9-30-05	5,314,180	426,655	4,887,525
Add:			247,712
GL Additions & Deletions, Capitalized Time & Pro forma Projects @ 6-30-06	251,702	3,990	
Less:			(21,128)
Organization @ 6-30-06	(27,128)	(6,000)	(18,940)
Land @ 6-30-06	(21,090)	(2,150)	(77,074)
Vehicles @ 6-30-06	(82,267)	(5,193)	(1,051)
Computers @ 6-30-06	(1,122)	(71)	
Net Plant	5,434,275	417,231	5,017,044
Plant Depreciation @ 1.5% (66.67 years)	81,514	6,258	75,256
Vehicles @ 6-30-06	82,267	5,193	77,074
Less: Fully Depreciated Vehicles	(21,260)	(1,342)	(19,918)
	61,007	3,851	57,156
Vehicle Depreciation @ 25% (4 years)	15,252	963	14,289
Computers @ 6-30-06	1,122	71	1,051
Less: Fully Depreciated Computers	(1,122)	(71)	(1,051)
	0	0	0
Computer Depreciation @ 25% (4 years)	0	0	0
WSC Office Depreciation Allocation	1,876	118	1,758
Regional Office Depreciation Allocation	316	20	296
Total Depreciation	98,958	7,359	91,599
Less: Per Books Depreciation	103,145	8,165	94,980
ORS Adjustment	(4,187)	(806)	(3,381)
Company's Adjustment	4,897	(151)	5,048
<u>Amortization of CIAC Adjustment</u>			
CIAC @ 9-30-05	(2,942,737)	(245,828)	(2,696,909)
CIAC Amortization @ 1.5% (66.67 years)	(44,141)	(3,687)	(40,454)
Less: Per Books Amortization of CIAC	(44,313)	(3,682)	(40,631)
ORS Adjustment	172	(5)	177
Company's Adjustment	1,230	54	1,176

United Utility Companies, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	921,606	43,014	878,592
Operating Expenses	842,745	45,004	797,741
Net Operating Income Before Taxes	78,861	(1,990)	80,851
Less: Annualized Interest Expense	80,219	5,847	74,372
Taxable Income - State	(1,358)	(7,837)	6,479
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	(68)	(392)	324
Less: State Income Taxes Per Book	1,281	59	1,222
Adjustment to State Income Taxes	(1,349)	(451)	(898)
Taxable Income - Federal	(1,290)	(7,445)	6,155
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	(452)	(2,606)	2,154
Less: Federal Income Taxes Per Book	10,606	487	10,119
Adjustment to Federal Income Taxes	(11,058)	(3,093)	(7,965)
As Adjusted Present			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	772,667	43,014	729,653
Operating Expenses	696,038	45,004	651,034
Net Operating Income Before Taxes	76,629	(1,990)	78,619
Less: Annualized Interest Expense	65,635	5,847	59,788
Taxable Income - State	10,994	(7,837)	18,831
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	550	(392)	942
Less: State Income Taxes - After Accounting & Pro Forma Adjustments	(68)	(392)	324
Adjustment to State Income Taxes	618	0	618
Taxable Income - Federal	10,444	(7,445)	17,889
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	3,655	(2,606)	6,261
Less: Federal Income Taxes After Accounting & Pro Forma Adjustments	(452)	(2,606)	2,154
Adjustment to Federal Income Taxes	4,107	0	4,107

United Utility Companies, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005

	After Proposed Increase		
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	865,298	48,573	816,725
Operating Expenses	697,119	45,069	652,050
Net Operating Income Before Taxes	168,179	3,504	164,675
Less: Annualized Interest Expense	65,635	5,847	59,788
Taxable Income - State	102,544	(2,343)	104,887
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	5,127	(117)	5,244
Less: State Income Taxes As Adjusted Present	550	(392)	942
Adjustment to State Income Taxes	4,577	275	4,302
Taxable Income - Federal	97,417	(2,226)	99,643
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	34,096	(779)	34,875
Less: Federal Income Taxes As Adjusted Present	3,655	(2,606)	6,261
Adjustment to Federal Income Taxes	30,441	1,827	28,614

United Utility Companies, Inc.
Customer Growth Computation
For the Test Year Ended September 30, 2005

Combined Operations:

Description	After Accounting & Pro Forma Adjustments	Gem Lakes & Keowee Townhomes Adjustments	As Adjusted Present	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
Water Customer Growth	0	0	0	0	0
Sewer Customer Growth	2,014	(179)	1,835	1,366	3,201
Combined Customer Growth	2,014	(179)	1,835	1,366	3,201

Number of Customers:

Beginning	1,878	Formula:			
Ending	1,967	Ending - Average	=	44	= 2.29%
Average	1,923	Average		1,923	

Water Operations:

Total Operating Income	1,008	0	1,008	3,392	4,400
Growth Factor	-3.13%	-3.13%	-3.13%	-3.13%	-3.13%
Customer Growth	0	0	0	0	0

Number of Customers:

Beginning	99	Formula:			
Ending	93	Ending - Average	=	(3)	= -3.13%
Average	96	Average		96	

Sewer Operations:

Total Operating Income	78,373	(6,957)	71,416	53,140	124,556
Growth Factor	2.57%	2.57%	2.57%	2.57%	2.57%
Customer Growth	2,014	(179)	1,835	1,366	3,201

Number of Customers:

Beginning	1,779	Formula:			
Ending	1,874	Ending - Average	=	47	= 2.57%
Average	1,827	Average		1,827	

Note: Combined customer growth equals water operations plus sewer operations customer growth

Beginning customer growth is @ 10/1/2004.

Ending customer growth is @ 6/30/2006.

United Utility Companies, Inc.
Cash Working Capital Allowance
For the Test Year Ended September 30, 2005

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
After Accounting & Pro Forma Adjustments			
Maintenance Expenses	504,215	22,577	481,638
General Expenses	202,558	13,795	188,763
Total Expenses for Computation	706,773	36,372	670,401
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital	88,347	4,547	83,800
Cash Working Capital - Per Books	87,341	4,356	82,985
Cash Working Capital Adjustment - ORS After Accounting & Pro Forma Adjustments	1,006	191	815
Cash Working Capital Adjustment - UUCI	4,462	282	4,180
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
As Adjusted Present			
Maintenance Expenses	439,716	22,577	417,139
General Expenses	143,493	13,795	129,698
Total Expenses for Computation	583,209	36,372	546,837
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital - As Adjusted	72,902	4,547	68,355
Cash Working Capital - After Accounting & Pro Forma Adjustments	88,347	4,547	83,800
Cash Working Capital Adjustment - ORS As Adjusted Present	(15,445)	0	(15,445)
Cash Working Capital Adjustment - UUCI	0	0	0

United Utility Companies, Inc.
Return on Common Equity
Capital Structure at September 30, 2005

Combined Operations

Description	Capital Structure	-----After Accounting & Pro Forma Adjustments-----				-----As Adjusted Present-----				-----After Proposed Increase-----			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
	\$	%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	1,249,507	6.42%	3.79%	80,219	1,022,349	6.42%	3.79%	65,635	1,022,349	6.42%	3.79%
Common Equity	94,651,855	40.90%	864,717	0.14%	0.07%	1,176	707,514	1.22%	0.50%	8,624	707,514	9.40%	3.85%
Totals	231,441,440	100.00%	2,114,224		3.86%	81,395	1,729,863		4.29%	74,259	1,729,863		7.64%

Water Operations

Description	Capital Structure	-----After Accounting & Pro Forma Adjustments-----				-----As Adjusted Present-----				-----After Proposed Increase-----			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
	\$	%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	91,070	6.42%	3.79%	5,847	91,070	6.42%	3.79%	5,847	91,070	6.42%	3.79%
Common Equity	94,651,855	40.90%	63,024	-7.68%	-3.14%	(4,839)	63,024	-7.68%	-3.14%	(4,839)	63,024	-2.30%	-0.93%
Totals	231,441,440	100.00%	154,094		0.65%	1,008	154,094		0.65%	1,008	154,094		2.86%

Sewer Operations

Description	Capital Structure	-----After Accounting & Pro Forma Adjustments-----				-----As Adjusted Present-----				-----After Proposed Increase-----			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
	\$	%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	1,158,437	6.42%	3.79%	74,372	931,279	6.42%	3.79%	59,788	931,279	6.42%	3.79%
Common Equity	94,651,855	40.90%	801,693	0.75%	0.32%	6,015	644,490	2.09%	0.86%	13,463	644,490	10.55%	4.32%
Totals	231,441,440	100.00%	1,960,130		4.11%	80,387	1,575,769		4.65%	73,251	1,575,769		8.11%

Note: ORS used the capital structure of the parent company @ 9/30/2005.

SETTLEMENT
Audit Exhibit CLS-10

United Utility Companies, Inc.
Income Statement
For the Test Year Ended September 30, 2005

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
	\$	\$	\$
<u>Operating Revenues</u>			
Service Revenues - Water	43,011	43,011	0
Service Revenues - Sewer	728,478	0	728,478
Service Revenues - GEM Lakes Adj.	146,265	0	146,265
Miscellaneous Revenues	29,482	1,114	28,368
Uncollectible Accounts	(44,295)	(2,033)	(42,262)
Total Operating Revenues	<u>902,941</u>	<u>42,092</u>	<u>860,849</u>
<u>Maintenance Expenses</u>			
Salaries and Wages	164,507	10,380	154,127
Purchased Power	90,360	3,508	86,852
Purchased Sewer & Water	7,601	0	7,601
Maintenance and Repair	207,550	6,727	200,823
Maintenance Testing	35,200	2,024	33,176
Meter Reading	0	0	0
Chemicals	27,199	1,716	25,483
Transportation	22,599	1,426	21,173
Operating Expense Charged to Plant	(59,722)	(3,768)	(55,954)
Outside Services - Other	8,777	554	8,223
Total	<u>504,071</u>	<u>22,567</u>	<u>481,504</u>
<u>General Expenses</u>			
Salaries and Wages	37,400	2,360	35,040
Office Supplies & Other Office Expense	36,079	2,277	33,802
Regulatory Commission Expense	35,001	2,209	32,792
Pension & Other Benefits	32,339	2,041	30,298
Rent	0	0	0
Insurance	34,512	2,178	32,334
Office Utilities	8,730	551	8,179
Miscellaneous	10,601	669	9,932
Total	<u>194,662</u>	<u>12,285</u>	<u>182,377</u>
Depreciation	103,145	8,165	94,980
Taxes Other Than Income	122,566	7,573	114,993
Income Taxes - Federal	10,606	487	10,119
Income Taxes - State	1,281	59	1,222
Amortization of ITC	0	0	0
Amortization of PAA	0	0	0
Amortization of CIAC	(44,313)	(3,682)	(40,631)
Total	<u>193,285</u>	<u>12,602</u>	<u>180,683</u>
Total Operating Expenses	<u>892,018</u>	<u>47,454</u>	<u>844,564</u>
Net Operating Income	<u>10,923</u>	<u>(5,362)</u>	<u>16,285</u>
Interest During Construction	(1,064)	(84)	(980)
Interest on Debt	137,880	10,917	126,963
Net Income	<u>(125,893)</u>	<u>(16,195)</u>	<u>(109,698)</u>

SETTLEMENT
Audit Exhibit CLS-11

United Utility Companies, Inc.
Balance Sheet
As of September 30, 2005

<u>Assets</u>	\$	\$	\$
Plant In Service			
Water	426,655		
Sewer	4,887,525		
Total		5,314,180	
Accumulated Depreciation - Water	(51,379)		
Accumulated Depreciation - Sewer	(531,037)		
Total		(582,416)	
Net Utility Plant			4,731,764
Plant Acquisition Adjustment - Water	0		
Plant Acquisition Adjustment - Sewer	0		
Total			0
Construction Work In Process - Water	0		
Construction Work In Process - Sewer	167,122		
Total			167,122
Current Assets			
Cash	5		
Accounts Receivable - Net	151,066		
Other Current Assets	0		
Total			151,071
Deferred Charges			36,778
Total Assets			<u><u>5,086,735</u></u>
 <u>Liabilities and Other Credits</u>	 \$		 \$
Capital Stock and Retained Earnings			
Common Stock and Paid In Capital	670,435		
Retained Earnings	(1,050,772)		
Total			(380,337)
Current and Accrued Liabilities			
Accounts Payable - Trade	13,105		
Taxes Accrued	41,740		
Customer Deposits	34,743		
Customer Deposits - Interest	29,141		
A/P - Associated Companies	2,366,691		
Total			2,485,420
Advances In Aid of Construction			
Water	0		
Sewer	0		
Total			0
Contributions In Aid of Construction			
Water	206,977		
Sewer	2,392,722		
Total			2,599,699
Accumulated Deferred Income Tax			
Unamortized ITC	0		
Deferred Tax - Federal	383,591		
Deferred Tax - State	(1,638)		
Total			381,953
Total Liabilities and Other Credits			<u><u>5,086,735</u></u>

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-107-W/S

IN RE:

Application of United Utility Companies,
 Inc. for adjustment of rates and charges
 and modifications to certain terms
 and conditions for the provision of
 water and sewer service.

REBUTTAL TESTIMONY
OF
CONVERSE CHELLIS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA") and a principal in and the Director of Litigation Services and Property Tax Services for Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah Island, and Summerville, South Carolina. My office is located at 133 East First North Street, Suite 9, Summerville, South Carolina 29483.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a bachelor's degree in business administration. I also have completed graduate level courses in accounting at the University of Georgia. In addition, I have had a minimum of forty (40) hours of continuing professional education ("CPE") each year since 1969, for a total of at least 1,440 total CPE hours.

Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL EXPERIENCE PRIOR TO YOUR CURRENT POSITION.

1 A. Upon graduation from The Citadel in 1966, I served in the United States Air
2 Force and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross
3 (now Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in
4 1972, and have been a name partner and managing partner in several accounting firms
5 until 1998. In 1999, I merged my firm with Gamble Givens & Moody, where I am a
6 principal and Director of Litigation Services.

7 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

8 A. Yes. I am a member of the American Institute of Certified Public Accountants
9 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
10 committee, and in 1985 I served on the AICPA council.

11 I am also a member of the South Carolina Association of Certified Public
12 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter
13 in 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
14 SCACPA, having previously served on the state level as Vice-President,
15 Secretary/Treasurer, and Director. I have also been Chairman of the SCACPA's
16 Committee on Continuing Professional Education, Chairman and trustee for the
17 SCACPA's educational fund, and Chairman of the SCACPA's Committee on
18 Cooperation with Governmental Agencies.

19 From 1986-1994, I was a member of the State Board of Accountancy, where I
20 served as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

21 From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also
22 a past member of the American Society of Appraisers, and a current member of the

1 American College of Forensic Examiners. In addition, I am a past associate in the
2 Municipal Finance Officers Association, and I have held various offices in the National
3 Association of Accountants. I am also active in the peer review process, which involves
4 examination of the work of other accountants and accounting firms to assure that quality
5 controls are being applied in conformance with the Quality Control Standards adopted by
6 the AICPA.

7 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER**
8 **ACCOUNTANTS OR AUDITORS?**

9 A. Yes. I have been a speaker and an instructor for the accounting profession on a
10 number of accounting topics, including topics related to generally accepted accounting
11 principles ("GAAP").

12 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
13 **CAROLINA COURT?**

14 A. Yes. I have been qualified as an expert witness in both the circuit and family
15 courts of South Carolina. I have also given testimony before this Commission and other
16 administrative agencies.

17 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

18 A. The purpose of my settlement testimony is to support the adoption of the
19 Settlement Agreement reached between United Utility Companies, Inc., or "UUC", and
20 the South Carolina Office of Regulatory Staff, or "ORS", in this case.

21 **Q. IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT A REASONABLE**
22 **MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

1 A. Yes, it is.

2 **Q. WHAT IS THE BASIS FOR YOUR OPINION IN THIS REGARD?**

3 A. I have several reasons for believing that the Settlement Agreement is a reasonable
4 means by which to resolve the disputed issues in this case. First, one of the statutory
5 duties of ORS is to facilitate the resolution of disputed issues involving matters within the
6 jurisdiction of the Commission. I think it incumbent upon the other parties in cases
7 before the Commission, which in this proceeding is only UUC, to work with ORS in
8 good faith in an attempt to reach a settlement. I believe that the Settlement Agreement
9 reflects a good faith effort on the part of ORS and UUC to meet their respective
10 obligations in that regard.

11 Second, and as Dr. Skelton mentions in his testimony in support of the Settlement
12 Agreement, capital markets recognize the value of settlements in ratemaking cases.
13 Additional investment resulting from favorable capital markets would be an enhancement
14 to economic development in South Carolina which is consistent with the public interest.

15 Third, a settlement brings the matter to an end without delay and the uncertainty
16 of further proceedings; this in turn permits ORS to focus its talents and resources on other
17 matters within its area of responsibility and permits the Company to focus upon the
18 continued improvement and expansion of its facilities and services for the benefit of its
19 customers.

20 In summary, the comprehensive settlement proposed by the parties in my opinion
21 fairly balances the interest of the customers and the Company. I therefore respectfully
22 urge that the Commission approve the Settlement Agreement.

1 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

2 A. Yes it does.

3

4

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-107-W/S

IN RE:)
)
 Application of United Utility Companies,)
 Inc. for adjustment of rates and charges)
 and modifications to certain terms)
 and conditions for the provision of)
 water and sewer service.)
 _____)

REBUTTAL TESTIMONY
OF B.R. SKELTON Ph.D.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is B. R. Skelton and my business address is 2962 Walhalla Highway, Six Mile, South Carolina 29682. I am Professor *Emeritus* of Economics at Clemson University and am engaged in a variety of private business endeavors, including real estate brokerage and residential construction. I also act as a mediator and arbitrator. Since 1974, I have mediated 190+ disputes and written decisions in over 1000 arbitration cases, mostly union-management grievances. I have also arbitrated deferrals from the courts and the NLRB.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received my B.S. degree in Arts & Sciences (History & Economics) from Clemson University in 1956. In 1958, I received a Masters of Science degree in Agricultural Economics from Clemson University. I received my Ph.D. in Economics from Duke University in 1964.

1 From 1959 to 1987, I was a professor of Economics at Clemson except for 1961-
2 63 when I was in graduate school at Duke University. In addition to teaching standard
3 economic theory, my academic background includes writing, lecturing and research in
4 the areas of labor economics, economic development and arbitration. While at Clemson,
5 I was a member of the Southern Economics Association and American Economic
6 Association. I was also a member of the Arbitration Panel of the Federal Mediation and
7 Conciliation Service and the American Arbitration Association. I retired from Clemson
8 in 1987.

9 **Q. PLEASE DESCRIBE YOUR WORK IN THE REAL ESTATE FIELD.**

10 **A.** Over time I have developed subdivisions, commercial property, apartments and
11 bought and sold real estate of all types.

12 **Q. DO YOU PROVIDE ANY CONSULTING SERVICES?**

13 **A.** I have served as a consultant to various individuals and companies, mostly
14 wrongful death and injury, divorce, product liability and valuation of business losses. I
15 was President of Economic Research and Consulting Associates prior to 1980, the
16 business that provided this analysis. I have testified before the PSC in one case involving
17 a water company in Oconee County.

18 **Q. DO YOU HOLD ANY OTHER PROFESSIONAL DESIGNATIONS?**

19 **A.** Yes. I am a mediator and arbitrator and am licensed by the State of South
20 Carolina as both a real estate broker and residential contractor. I am also an elected
21 member of the National Academy of Arbitrators and have been a member since 1981.

22 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

1 A. The purpose of my testimony is to provide support for the Settlement Agreement
2 entered into by the parties in the proceeding on August 23, 2006. Specifically, I will be
3 testifying as to the reasons why the 9.40% Return on Equity ("ROE") agreed to by the
4 parties is a reasonable ROE for the Company in the context of a comprehensive
5 settlement of this specific case and why the Commission should approve the proposed
6 settlement.

7 **Q. WHY, IN YOUR OPINION, IS THE SETTLEMENT ROE OF 9.40%**
8 **SUPPORTABLE AS A REASONABLE ROE FOR THE COMPANY IN THE**
9 **CONTEXT OF A COMPREHENSIVE SETTLEMENT AGREEMENT?**

10 A. In the context of the present settlement agreement, which disposes of all issues in
11 the case, rates set based upon a 9.40% ROE can provide investors the opportunity to earn
12 a reasonable return on the Company's capital investment. Based on my knowledge of the
13 capital market, and my understanding of its expectations related to regulated and non-
14 regulated returns in the present economic context, I believe that 9.40% is a sufficient
15 return which the capital market would expect in the context of a comprehensive
16 settlement.

17 **Q. WHY IS A SETTLEMENT IMPORANT TO CAPITAL MARKETS?**

18 A. I believe that investors place great importance on the settlement of litigation
19 disputes involving any industry. I am aware from my experience in mediating and
20 arbitrating labor disputes that the capital markets in general react favorably to the
21 settlement of wage/benefit issues which comprise only one aspect of the overall financial
22 picture for non-regulated industries. Whether utility rate cases are settled or litigated is

1 even more important to investors in the utility industry as these cases involve every
2 aspect of the financial picture of a utility and therefore figure prominently in analysts'
3 reports and evaluations of these cases. The settlement of a rate case is therefore a factor
4 that strongly influences the capital market's assessment of the regulatory climate a utility
5 operates in. The capital market sees settlements as an indication of a cooperative
6 relationship between a utility and its regulators and the other participants in the
7 regulatory process. Given this, I believe that this settlement should be approved.

8 **Q. IN YOUR OPINION, ARE THERE OTHER REASONS WHY THE**
9 **COMMISSION SHOULD APPROVE THE SETTLEMENT PROPOSED BY THE**
10 **PARTIES IN THIS CASE?**

11 A. Yes. I believe that administrative economy supports Commission approval of the
12 proposed settlement and that settlements should be favored since they reflect a solution
13 devised by the parties which is more likely to address their needs.

14 **Q. WOULD YOU ELABORATE ON THAT STATEMENT?**

15 A. Yes. The Commission has scarce resources available to be used in the discharge
16 of its duties. These are important duties which have been delegated to the Commission
17 by the legislature. Settlement of this case will permit the Commission to focus its
18 resources on other matters within its purview. Further, in my experience as a mediator
19 and arbitrator, I have come to understand that part of the value of settling disputed
20 matters is that it results in a resolution more likely to fit the needs and circumstances of
21 the parties than does an imposed resolution. I believe that to be the case here.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes, it does.

2

EXHIBIT "G" TO SETTLEMENT AGREEMENT
DOCKET NO. 2006-107-WS

UNITED UTILITY COMPANIES, INC.

SCHEDULE OF **PROPOSED** RATES AND CHARGES

WATER

1. Monthly Charges

Residential –

Monthly charge per single-family house, condominium, mobile home or apartment unit:

\$13.60 per unit

Commodity Charge:

\$5.00 per 1,000
Gallons or 134 cft

Commercial

Monthly Charge

\$13.60 per SFE*

Commodity Charge:

\$5.00 per 1,000
Gallons or 134 cft

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. Non-Recurring Charges

A) Water service connection charge per single-family equivalent * \$100.00

- B) Plant Impact fee per single-family equivalent* \$400.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non-residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

3. Account Set-Up and Reconnection Charges

- a. Customer Account Charge – for new customers only. \$25.00
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

6. Cross Connection Inspection Fee

Any customer installing, permitting to be installed, or maintaining any cross connection between the Utility's water system and any other non-public water system, sewer or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2 (Supp. 2004), as may be amended from time to time. Such a customer shall annually have such cross connection inspected by a licensed certified tester and provide to Utility a copy of a written inspection report and testing results submitted by the certified tester in accordance with 24A S.C. Code Ann. Regs. R.61—58.7.F.8 (Supp. 2004), as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later than June 30th of each year. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill.

7. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

8. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities – 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

SCHEDULE OF **PROPOSED** RATES AND CHARGES

SEWER

1. Monthly Charges

Residential –

Monthly charge per single-family house, condominium, villa or apartment unit: \$51.66 per unit

Mobile Homes – monthly charge: \$39.00 per unit

Commercial - monthly charge per single-family equivalent*: \$51.66

Charge for Sewage Collection Service Only (All Areas Other Than Gem Lakes)

When sewage is collected by the Utility and transferred to a government body or agency, or other entity for treatment, the Utility's rates are as follows:

Residential - monthly charge per single-family house, condominium, mobile home, or apartment unit \$ 32.08 per unit

Commercial - monthly charge per single-family equivalent* \$ 32.08

Charge for Sewage Collection Service Only (Gem Lakes Subdivision)

Per Order No. 2004-465, Docket Nos. 2003-250-S and 2004-95-S

Residential - monthly charge per single-family house, condominium, mobile home, or apartment unit \$24.66

The Utility will also charge for treatment services provided by the government body or agency or other entity. The rates imposed or charged by the government body or agency or other entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of the 201/208 Plan to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection /impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rate basis, without markup.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. Non-recurring Charges

- | | | |
|----|---|----------|
| A) | Sewer service connection charge per
single-family equivalent*: | \$100.00 |
| B) | Plant Impact fee per single-family
Equivalent*: | \$400.00 |

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non-residential customer is less than one (1). If the equivalency rating of a non-residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

- a. Notification Fee
A fee of four dollars (\$4.00) shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
- b. Customer Account Charge: A fee of twenty-five dollars (\$25.00) shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.
- c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnection service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

6. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has not been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the utility for all damages and costs, including reasonable attorney's fees, incurred by the utility as a result thereof.

7. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

8. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless sewer capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system. In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been

reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities – 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.